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# Treasury Will Help Liquidate Reserve Fund

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In an unusual step, the U.S. Treasury announced Thursday it will help liquidate a money-market fund from **Reserve Management** Corp., whose travails touched off the recent turmoil in money funds that has rocked the investing world.

The move illustrates how far authorities are willing to go to make money-fund investors whole who have been hurt in recent weeks. It also confirms how tight credit markets remain for some short-term debt.

The Treasury is essentially acting as a buyer of last resort for the Reserve U.S. Government Fund, which invests in securities from the government and agencies like Fannie Mae. A lot of the assets are so-called floating-rate debt, which are borrowings with variable interest rates that have become particularly unattractive in the current tight credit market.

The Treasury said Thursday that it was stepping in because of "unique and extraordinary" circumstances at the fund.

The decision drives home how "regulators, the Reserve and basically everyone wants to resolve this issue," says Pete Crane, president of money-fund research firm Crane Data LLC.

The Government fund isn't Reserve's most troubled offering, but has been swept up in panic selling that began in September. That month, Reserve's flagship, $65 billion Reserve Primary Fund "broke the buck," or fell below $1-a-share, as commercial paper from Lehman Brothers Holdings Inc. was written down to zero amid the bank's collapse.

The problems prompted investors to flee money-market funds at Reserve and many other fund firms. The situation hurt some of the world's biggest investors, for instance, **China Investment** Corp., which is the nation's sovereign-wealth fund and held roughly $5 billion in Reserve Primary Fund's institutional shares.

Besides the Primary fund, investors also dumped Reserve funds like the $10 billion Government Fund, even though it didn't hold Lehman paper or drop in value below $1 per share. Reserve received $6 billion in redemption requests for the Government fund and $60 billion for the Primary fund during the selloff.

Reserve has opted to close Government, Primary and more than a dozen smaller funds. By the end of September, the Securities and Exchange Commission stepped in and ordered Reserve to halt redemptions for the two funds, afraid that some investors might get stiffed otherwise.

Since then, Reserve has been able to liquidate roughly half the Primary and Government funds. It has begun returning $26 billion to Primary fund holders and $4.5 billion to Government fund holders. It has also applied to participate in a guarantee program set up by the Treasury Department that essentially provides temporary insurance to money-market funds.

The Treasury offered to take on the securities to help Reserve pay its investors faster. It wanted a quick liquidation rather than letting it drag on for months as the debt matured. One of its concerns was that the Government fund could tip the market for agency debt into an even worse condition if it sold its assets at steep discounts.

The Treasury will buy remaining holdings in another 45 days and hold them, likely until maturity, which in many cases is next year. It said it didn't expect to take similar actions for other money-market funds participating in its guarantee program.

The Reserve debacle has helped spur unprecedented government intervention in recent weeks. The Federal Reserve has set up two facilities to sell various commercial paper and other debt. Roughly $400 billion of the facilities has been tapped.